

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04
NSAE-00 SIL-01 PA-01 PRS-01 SP-02 USIA-06 AID-05
NSC-05 CIEP-01 SS-15 STR-04 OMB-01 CEA-01 /074 W
-----041914Z 070049 /53

R 041740Z JAN 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 2028
TREASURY DEPT WASHDC
INFO USMISSION EC BRUSSELS
AMCONSUL MILAN
AMCONSUL NAPLES
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ROME 0127

E. O. 11652: GDS
TAGS: EFIN, IT
SUBJ: LABOR LEADER COMMENTS ON LABOR COST QUESTION

1. SUMMARY. SECRETARY GENERAL OF UIL (UNIONE ITALIANA DEL LAVORO), GIORGIO BENVENUTO, ON DECEMBER 28 DISCUSSED ITALIAN LABOR COST PROBLEM WITH EMBOFFS IN CONTEXT OF GOI LOAN NEGOTIATIONS WITH IMF. BENVENUTO WAS SKEPTICAL OF GOI EXPLANATION OF ALLEGED IMF POSITION ON WAGE ESCALATOR CLAUSE AND ARGUED THAT COUNTER PROPOSALS BY THREE LABOR CONFEDERATIONS CONCERNING LABOR COSTS SHOULD BE ACCEPTED BY FOREIGN LENDERS FOR BOTH POLITICAL AND ECONOMIC REASONS. END SUMMARY.

2. SECRETARY GENERAL OF UIL GIORGIO BENVENUTO INVITED ASSISTANT LABOR ATTACHE AND TREASURY ATTACHE TO LUNCH ON DECEMBER 28. ALSO PRESENT WERE VINCENZO MATTINA (SECRETARY GENERAL OF FLM, METALMECHANICAL UNION) AND AIDE TO BENVENUTO. BENVENUTO SAID THAT HE QUESTIONED
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WHETHER GOI HAD GIVEN ACCURATE DESCRIPTION TO UNIONS OF POSITION TAKEN BY IMF IN STANDBY CREDIT NEGOTIATIONS. HE COULD NOT BELIEVE THAT IMF WAS ATTACHING AS MUCH IMPORTANCE TO MODIFICATION OF WAGE ESCALATOR CLAUSE (SCALA MOBILE) AS GOI SEEMED TO IMPLY. HE ASKED FOR EMBOFFS' VIEWS ON ROLE OF IMF AND ON IMPORTANCE TO FOREIGN CREDITORS OF ACTION ON LABOR COSTS.

3. EMBOFFS EXPLAINED CRITICAL ROLE WHICH IMF PLAYS AS IMPARTIAL JUDGE OF ADEQUACY OF BORROWING COUNTRIES' ECONOMIC POLICIES AND IMPORTANCE ATTRIBUTED TO THESE VIEWS BOTH BY FOREIGN OFFICIAL LENDERS AND BY PRIVATE FINANCIAL COMMUNITY. IN RESPONSE TO QUESTION ABOUT WHETHER OR NOT IMF COULD TAKE "POLITICAL CONSIDER-ACTIONS" INTO ACCOUNT, EMBOFFS REPLIED THAT FUND COULD NOT ENTER INTO PURELY POLITICAL MATTERS. HOWEVER, IT MUST, OF COURSE, EVALUATE PRACTICAL POSSIBILITIES OF BORROWING COUNTRY'S ABILITY TO ACCEPT AND IMPLEMENT CERTAIN ECONOMIC POLICIES WITHIN EXISTING POLITICAL CONTEXT. EMBOFFS EXPLAINED THAT IMF-SUPPORTED STABILIZATION PROGRAMS BEING DEVELOPED IN COUNTRIES LIKE ITALY AND THE UK CONSTITUTED NEW DEPARTURE UNDER RULES OF REFORMED INTERNATIONAL MONETARY SYSTEM, WHEREBY IMF WOULD BE ASSUMING EXPANDED ROLE IN CONSULTING WITH MEMBER GOVERNMENTS ABOUT WIDE AREAS OF ECONOMIC POLICY. ALSO, ITALY'S LARGE EXISTING DEBTS TO IMF AND SIZE OF POSSIBLE NEW STANDBY REQUIRED VERY CAREFUL CONSIDERATION BY IMF OF ADEQUACY OF ITALIAN STABILIZATION PROGRAM. FUND ACCEPTANCE OF ITALIAN AND UK PROGRAMS COULD ESTABLISH IMPORTANT PRECEDENTS FOR FUTURE IMF LENDING.

4. EMBOFFS FURTHER EXPLAINED THAT IMF AND OTHER FOREIGN LENDERS WERE NOT CONCENTRATING SOLELY ON LABOR COST PROBLEM. THERE WOULD CERTAINLY BE IMF LOAN CONDITIONS IN MONETARY AND CREDIT FIELD AND GOI HAD ALREADY TAKEN IMPORTANT MEASURES IN FISCAL FIELD WHERE LOAN CONDITIONS

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WOULD ALSO BE APPLICABLE. MAIN PART OF STABILIZATION PROGRAM WHICH HAD NOT YET BEEN COMPLETED CONCERNED ACTION TO ARREST EXCESSIVE INCREASE IN ITALIAN UNIT LABOR COSTS. WHATEVER MEASURES WERE TAKEN SHOULD BE READILY QUANTIFIABLE AND SUFFICIENTLY LARGE TO BE CREDIBLE TO FOREIGN CREDITORS, WHO WOULD NOT BE EASILY CONVINCED BY COMPLICATED DEVICES NOR BY MEASURES HAVING ONLY LONG-TERM PAYOUT. SINCE SCALA MOBILE COMPONENT OF LABOR COSTS WAS SO LARGE, IT WAS HARD TO ENVISAGE AN ADEQUATE PROGRAM WHICH DID NOT SIGNIFICANTLY MODIFY SCALA MOBILE. FURTHERMORE, APART FROM ECONOMIC IMPORTANCE OF SCALA MOBILE, GOI ACTION IN THIS DIFFICULT BUT CRITICAL AREA WAS WIDELY VIEWED BY FOREIGN CREDITORS AS A TEST OF SERIOUSNESS ON PART OF GOI AND ITALIAN SOCIAL FORCES IN DEALING WITH ITALY'S DIFFICULT ECONOMIC PROBLEMS.

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5. BENVENUTO ARGUED THAT ALTERNATIVE MEASURES FOR REDUCING UNIT LABOR COSTS, PARTICULARLY UNLINKING OF SCALA MOBILE FROM TERMINATION PAY CALCULATIONS, SHOULD BE ACCEPTED AS EQUAL OR BETTER THAN PROPOSAL FAVORED BY GOI TO CHANGE FREQUENCY OF SCALA MOBILE ADJUSTMENTS FROM QUARTERLY TO SEMI-ANNUALLY. BENVENUTO CLAIMED THAT VALUE OF THIS PROPOSAL BY THREE CONFEDERATIONS WAS 2,000 BILLION LIRE. EMBOFFS EXPRESSED DOUBTS ABOUT WHETHER UNIONS' PROPOSAL WOULD REALLY HAVE THAT MUCH EFFECT IN 1977, IF AT ALL, SINCE FOR MANY COMPANIES AT LEAST, RESERVES SET ASIDE FOR EVENTUAL TERMINATION PAYMENTS CONSTITUTED MERE BOOKKEEPING ENTRY SO THAT MEASURE WOULD NOT ACTUALLY PROVIDE MUCH CASH BENEFIT. (MATTINA ALSO SEEMED TO HAVE SOME HONEST DOUBTS ABOUT ACTUAL VALUE OF UNIONS' PROPOSALS.) IN ADDITION, BENVENUTO ARGUED THAT, IF GOI INSISTED ON TAKING SOME DIRECT MEASURE TO REDUCE EFFECT OF SCALA MOBILE IN 1977, RESULT MIGHT VERY WELL BE THAT WORKERS WOULD INSIST ON RECOUPING SUCH LOST INCOME BY INCREASING THEIR WAGE DEMANDS DURING FORTHCOMING COMPANY LEVEL CONTRACT

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NEGOTIATIONS. IN SUCH CASE IT WOULD BE DIFFICULT FOR LABOR CONFEDERATIONS TO BE EFFECTIVE IN THEIR

ANNOUNCED POLICY OF RESTRAINING LOCAL UNIONS FROM DEMANDING MORE THAN NOMINAL COMPANY-LEVEL WAGE INCREASES, IN ORDER TO PRESERVE SCALA MOBILE.

6. FINALLY, BENVENUTO URGED THAT FOREIGN CREDITORS, INCLUDING THE US, SHOULD TAKE INTO CONSIDERATION POLITICAL REALITIES IN ITALY. HE DID NOT THINK THAT IT WAS IN THEIR INTERESTS TO TAKE POSITION IN ECONOMIC AREA WHICH WOULD HAVE EFFECT OF STRENGTHENING COMMUNIST-LED CGIL AND COMMUNIST PARTY (PCI). IN FACT, HE SAID THAT REASON WHY UIL OPPOSED CHANGE IN FREQUENCY OF SCALA MOBILE ADJUSTMENTS WAS THAT THIS PROPOSAL WAS ADVANCED BY ELEMENTS OF CGIL AT BEHEST OF PCI, AND THAT ITS ACCEPTANCE WOULD INCREASE GOI DEPENDENCE ON PCI ON GROUNDS IT WAS ABLE TO DELIVER WORKER ACCEPTANCE OF SACRIFICES.

7. AT END OF LUNCH, BENVENUTO SUGGESTED THAT EMBOFFS CONTINUE TO KEEP IN TOUCH WITH HIM AND THAT THEY EXAMINE SOME DOCUMENTS WHICH HAD BEEN COMPILED BY UIL IN CONNECTION WITH RECENT NEGOTIATIONS WITH CONFINDUSTRIA AND WITH GOI.

8. COMMENT. WORKING LUNCH INITIATED BY BENVENUTO CONSTITUTED OBVIOUS ATTEMPT AT END-RUN AROUND GOVERNMENT FOR TWO APPARENT REASONS: (1) TO ASSESS WHETHER OR NOT GOI WAS GIVING ACCURATE PICTURE OF IMF AND OTHER CREDITORS' POSITION ON LABOR COST QUESTION, AND (2) TO MAKE DIRECT APPEAL TO USG TO TAKE POLITICAL CONSIDERATIONS INTO ACCOUNT IN JUDGING QUALITY OF ITALIAN STABILIZATION EFFORTS. BENVENUTO SEEMED GENUINELY UNCERTAIN ABOUT ROLE OF IMF IN LOAN NEGOTIATIONS, CONCERNED ABOUT WHAT HE VIEWED AS FUND SHIFT IN EMPHASIS FROM FISCAL PROBLEM TO SCALA MOBILE, UNAWARE OF EXTENT TO CONFIDENTIAL

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WHICH IMF COULD TAKE POLITICAL CONSIDERATIONS INTO ACCOUNT, AND UNCONVINCED OF IMPORTANCE OF FUND ACCEPTANCE OF GOI PROGRAM FOR OPENING DOOR TO POSSIBLE CREDITS FROM BOTH OFFICIAL AND PRIVATE SOURCES. ALSO, BENVENUTO DID NOT SEEM TO BE FULLY AWARE OF EXTENT TO WHICH USG HAS BEEN CLOSELY FOLLOWING GOVERNMENT'S EFFORTS TO PUT TOGETHER STABILIZATION PROGRAM AND FACT THAT POLITICAL FACTORS WERE, OF COURSE, ALSO BEING EVALUATED. (EMBOFFS TRIED TO AVOID GIVING IMPRESSION THAT OUTRIGHT POLITICAL APPEAL FOR LENIENCY IN USG EVALUATION OF QUALITY OF ITALIAN STABILIZATION PROGRAM WOULD MEET WITH SUCCESS.) EMBOFFS WELCOMED OPPORTUNITY TO EXPLAIN FOREIGN CREDITORS' INTEREST IN STRONG ACTION ON LABOR COSTS TO LEADER OF LABOR CONFEDERATION WHICH HAS TAKEN INTRANSIGENT POSITION

THAT SCALA MOBILE SHOULD REMAIN "UNTOUCHED" BY GOI
STABILIZATION PROGRAM. WE CANNOT CLAIM, HOWEVER, TO HAVE
PERSUADED BENVENUTO TO MODIFY THIS POSITION.VOLPE

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Message Attributes

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